

Council on Postsecondary Education
July 30, 2001

Development of the 2002-04 Trust Funds Recommendation

The 1998-2000 biennium featured the use of a new funding mechanism -- incentive trust funds. The 1998 General Assembly appropriated funds to six trust funds. The 2000 General Assembly continued its commitment to reform that began with the passage of the *Kentucky Postsecondary Education Improvement Act of 1997* (HB 1). Based on the council's request, the 2000 General Assembly appropriated funds to the original six trust funds and established two additional trust funds, the Adult Education and Literacy Trust Fund and the Science and Technology Trust Fund. A summary of the 2000-02 trust fund appropriations is presented on pages 108 and 109.

The trust funds are appropriated to the council with the majority of the funds earmarked for the institutions. The council is expected to incorporate a request for continuation or expansion funding of the trust funds in the 2002-04 operating budget recommendation. But, the council should consider the Commonwealth's projected tight fiscal environment for the 2002-04 biennium when determining the request amounts.

Three of the original six trust funds were created based on the type of institution that could qualify for funding. For example, only the comprehensive universities may receive funds from the Regional University Excellence Trust Fund. This trust fund includes the action agenda program, the enrollment growth and retention program, and the endowment match program. The two new trust funds requested by the council and funded by the 2000 General Assembly were created for specific purposes established under separate legislation (SB 1 and HB 572). The council staff suggests that the purpose-based trust funds be expanded to focus the postsecondary education system on achieving the 2020 Vision for the Commonwealth.

2002-04 Trust Fund Issues

Following the 2000 session of the General Assembly, the Strategic Committee on Postsecondary Education reviewed the postsecondary education funding processes. The result of the review was a set of *Points of Consensus* for the 2002-04 operating and capital requests. The *Points of Consensus* was agreed to by the presidents of the public universities, the KCTCS, and the council, and endorsed by the council February 5. All parties agreed that trust funds should be requested in the 2002-04 biennium.

The council must address many issues in developing the 2002-04 operating budget recommendation for the trust funds. The following key issues are addressed below:

- Transfer of 2000-02 trust fund appropriations to the institutions' base appropriations.
- Funding requests for the existing trust funds.
- New trust funds.
- Trust funds guidelines.

Transfer of 2000-02 trust fund appropriations. The 2000 General Assembly permanently transferred some of the 1998-2000 trust funds to the institutions' base appropriations effective July 1, 2000. The transfers included funds for the programs of distinctions at the comprehensive universities and the research challenge programs at UK and UofL. (See the review of programs beginning on page 95.) The council may request that some of the 2000-02 trust fund appropriations be transferred to the institutions' base appropriations -- for example, the Enrollment Growth and Retention Program funds and the Action Agenda Program funds. The permanent transfer of funds allows the institutions to use these funds to cover recurring costs, such as salaries.

Funding requests for the existing trust funds. The council is expected to make a recommendation regarding each of the existing eight trust funds in its 2002-04 operating budget recommendation. The council could request no funding, continuation funding (the same as the 2000-02 amounts), or increased funding.

New trust funds. The council may request the creation of new trust funds. According to the *Points of Consensus*, the council will request an Enrollment Growth and Retention Trust Fund. The funding amounts are to be based on enrollment and retention goals negotiated with each institution (see Key Indicators, pages 59 to 65), the benchmark-funding objective for each institution (see 2002-04 Operating Recommendation, pages 113 to 130), and the differentiated costs of undergraduate and graduate instruction.

An Enrollment Growth and Retention Program was funded in 2000-02. However, the program funds were allocated to three of the existing trust funds, which limited the distribution of funds to eligible institutions. For example, if the Kentucky Community and Technical College System did not meet its enrollment and retention goals, the program funds allocated to the Postsecondary Workforce Development Trust Fund could not be reallocated to any other institution that exceeded their goals.

There are many issues related to the proposed Enrollment Growth and Retention Trust Fund including rewarding systemwide improvement of college-going rates, increasing enrollments from targeted counties, distributing funds based on performance, and recognizing the difference between undergraduate and graduate instructional costs for increased enrollments. The council members have previously discussed ways to reduce incentives for inefficient competition for students between institutions, both public and independent. One such possibility could be to reward the system as a whole for increased college-going rates as part of an Enrollment Growth and Retention Trust Fund.

The council may want to again consider allocating some of the 2002-04 trust funds to increasing enrollments from targeted underserved counties. This concept was previously discussed but was not incorporated into the guidelines for the 2000-02 Enrollment Growth and Retention Program. The council may also consider allocating the 2002-04 enrollment growth and retention funds based on actual performance. The 2001-02 Enrollment Growth and Retention Program funds have been allocated to the institutions based on their goals – not on performance. But, the current guidelines do stipulate that the 2001-02 allocation is nonrecurring if an institution does not achieve its enrollment and retention goals.

Finally, it was agreed that distribution guidelines for the new Enrollment Growth and Retention Trust Fund would recognize the differentiated costs of undergraduate and graduate instruction. The council may chose to initiate a cost study for Kentucky or use an existing study to differentiate the costs. The council staff has reviewed several studies by other states including Illinois, Florida, and Washington. The Washington Higher Education Coordinating Board's study (completed in March 2000) appears to be the most compatible to our situation. The primary purpose of the study was to determine cost distribution ratios for each type of public postsecondary institution at the undergraduate and graduate levels. Following are the relevant cost ratios from this study:

Research Institutions:

Ratio of undergraduate costs per FTE to total average costs per FTE	80.21%
Ratio of graduate costs per FTE to undergraduate costs per FTE	229.07%

Comprehensive Institutions

Ratio of undergraduate costs per FTE to total average costs per FTE	97.92%
Ratio of graduate costs per FTE to undergraduate costs per FTE	136.48%

In addition to the Enrollment Growth and Retention Trust Fund, the council staff is considering recommending a new trust fund related to teacher quality. The council's 2000-02 recommendation for the Regional University Excellence Trust Fund included a request for funds to support model schools of education and teacher quality. The 2000 General Assembly combined this request with the Action Agenda program. The 2000 General Assembly also passed Senate Bill 77 which addresses teacher quality and the preparation of elementary and secondary teachers. However, there was no associated funding for this legislation.

Trust fund guidelines. The council established the 1998-2000 and 2000-02 trust fund guidelines, including distribution criteria and required matching funds, after passage of the biennial budget bills. According to the *Points of Consensus*, the council is to establish the distribution criteria for each recommended trust fund, the method for determining institutional allocations, and required matching funds prior to submitting the 2002-04 operating recommendation.

Next Steps

The council may wish to discuss any or all of the above issues at the July 30 meeting. The council is to approve the 2002-04 operating recommendation November 5. The council is currently scheduled to meet in September and November. An additional meeting in October will probably be necessary to fully discuss the 2002-04 operating and capital recommendations, including the trust funds. The council staff will present detailed discussions of the trust funds at each of these meetings.

**Kentucky Council on Postsecondary Education
2000 - 2002 Incentive Trust Funds**

	2000-01	2001-02
Research Challenge Trust Fund	<i>Enrollment Growth & Retention</i>	
University of Kentucky	\$ 950,000	\$ 826,000
Lexington Community College	250,000	315,200
University of Louisville	450,000	508,800
Subtotal	\$ 1,650,000	\$ 1,650,000
	<i>Lung Cancer Research Program</i>	
University of Kentucky / University of Louisville	\$ 5,055,000	\$ 6,080,000
	<i>Endowment Match Program</i>	
University of Kentucky	\$ 66,667,000	\$ -
University of Louisville	33,333,000	
Subtotal	\$ 100,000,000	\$ -
Total Research Challenge Trust Fund	\$ 106,705,000	\$ 7,730,000
Regional University Excellence Trust Fund	<i>Enrollment Growth & Retention</i>	
Eastern Kentucky University	\$ 850,000	\$ 755,500
Kentucky State University	400,000	324,900
Morehead State University	350,000	320,500
Murray State University	200,000	349,000
Northern Kentucky University	350,000	436,600
Western Kentucky University	700,000	663,500
Subtotal	\$ 2,850,000	\$ 2,850,000
	<i>Action Agenda</i>	
Eastern Kentucky University	\$ -	\$ 2,433,000
Kentucky State University		732,000
Morehead State University		1,435,000
Murray State University		1,659,000
Northern Kentucky University		1,414,000
Western Kentucky University		2,327,000
Subtotal	\$ -	\$ 10,000,000
	<i>Endowment Match Program</i>	
Eastern Kentucky University	\$ 4,900,000	\$ -
Kentucky State University	1,503,000	
Morehead State University	2,925,000	
Murray State University	3,383,000	
Northern Kentucky University	2,664,000	
Western Kentucky University	4,625,000	
Subtotal	\$ 20,000,000	\$ -
Total Regional University Excellence Trust Fund	\$ 22,850,000	\$ 12,850,000

Kentucky Council on Postsecondary Education
2000 - 2002 Incentive Trust Funds

	<u>2000-01</u>	<u>2001-02</u>

**Kentucky Council on Postsecondary Education
2000 - 2002 Incentive Trust Funds**

	2000-01	2001-02
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Postsecondary Workforce Development Trust Fund - KCTCS		
Workforce Development/Training	\$ 6,000,000	\$ 6,000,000
Enrollment Growth and Retention	3,500,000	3,500,000
KCTCS Administrative Systems	4,000,000	-
Total Postsecondary Workforce Development Trust Fund	\$ 13,500,000	\$ 9,500,000
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Technology Trust Fund		
Equipment Replacement - Debt Service (\$20 million authorized)	\$ -	\$ 3,800,000
Network Infrastructure	-	1,200,000
Public Communications Campaign (KEES Program Transfer - Lottery)	-	1,500,000
Faculty Development	-	1,000,000
Total Technology Trust Fund	\$ -	\$ 7,500,000
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Physical Facilities Trust Fund		
Capital Renewal & Maintenance - Debt Service (\$30 million authorized)	\$ -	\$ 3,018,100
Renovation, Replacement & Infrastructure - Debt Service (\$103.4 million authorized)	-	10,436,000
New Construction - Debt Service (\$74 million authorized)	-	7,446,000
Total Physical Facilities Trust Fund	\$ -	\$ 20,900,100
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Student Financial Aid & Student Advancement Trust Fund - KEES	\$ 22,350,000	\$ 37,500,000
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Adult Education and Literacy Trust Fund	\$ 7,000,000	\$ 12,000,000
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Science and Technology Trust Fund		
Research & Development	\$ -	\$ 3,000,000
Commercialization	-	750,000
Regional Technology Service	-	500,000
Entrepreneurial Policy Impact Audit	250,000	-
Rural Innovation Fund	1,000,000	-
Total Science and Technology Trust Fund	\$ 1,250,000	\$ 4,250,000
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Total Incentive Trust Funds	\$ 173,655,000	\$ 112,230,100